

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4493  
September 2, 2004

**R E S O L U T I O N**

**(RES. W-4493), CALIFORNIA UTILITIES SERVICES, INC. (CUS),  
AND ALL SEWER UTILITIES. ORDER AUTHORIZING: (1)  
CUS A CONSUMER PRICE INDEX (CPI) INCREASE  
PRODUCING AN INCREASE IN ANNUAL REVENUE OF  
\$13,134 OR 1.9%, AND (2) ALL SEWER UTILITIES TO FILE FOR  
RATE INCREASES BASED ON THE CONSUMER PRICE INDEX.**

---

**SUMMARY**

By Advice Letter No. 32, filed on April 22, 2004, CUS requests a CPI rate increase to its tariff Schedule No. 1, General Flat Rate Service, resulting in an increase in annual revenues of \$13,134 or 1.9% of its last authorized revenue requirement. This resolution grants CUS and all sewer companies authority to file advice letter requests once each year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U) announced by the Bureau of Labor Statistics of the U.S. Department of Labor. Existing Commission Decision (D.) 92-03-093 allows class C and D water utilities presently not earning the rate of return authorized in its most recent rate case and presently not subject to a test year, attrition year, or other general rate increase to file once each year by advice letter for the CPI-U increase, but no decision allows the same to the sewer utilities. This resolution enables sewer utilities to file advice letters requesting the same type of rate increase treatment given to water companies.

**BACKGROUND**

CUS requests authority under Section VI of General Order 96-A, Section 454 of the Public Utilities Code to file for a CPI increase to produce \$13,134 or 1.9% more than its last authorized revenue requirement. The increase will not result

in the utility earning in excess of its authorized rate of return in its most recent rate case. In addition to CUS, other sewer utilities have difficulty-generating revenue up to their rate of return, similar to small water utilities, as discussed in D.92-03-093. Water Division is allowed to approve these increases if properly filed in compliance with that decision.

## **DISCUSSION**

D.92-03-093, March 31, 1992, Ordering Paragraph 1, granted authority to Class C and D water utilities to file once each year an advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U) announced by the Bureau of Labor Statistics of the U.S. Department of Labor.

For the water utility to qualify for the CPI increase it must not currently be earning more than the rate of return authorized in its most recent rate case, and must not be subject to test year, attrition year, or other general rate increase. No CPI-U increase will be granted if projected revenues from the increase causes the rate of return to exceed that authorized in a utility's most recent rate case.

Further, illustrating the similarities between sewer and water utilities is the fact that all but one of the sewer utilities also has regulated water operations. Sewer utilities range in size from 18 to 1,602 customers. The rate of return on ratebase granted to sewer utilities in the past range from 9.6% to 13% and operating ratios from 20% to 27%. Since November 1996, the longest time a sewer utility has not come in for any type of rate adjustment was almost eight years. Most have filed an advice letter or GRC within the last five years. These characteristics are quite similar to the water utilities addressed in D.92-03-093 (See appendix).

CPI increases for sewer utilities were not addressed in D.92-03-093. All the justifications exist for sewer companies to request CPI increases that exist for water utilities based on operational similarities and functionalities. Authorizing a CPI increase will allow these utilities the opportunities to keep up with inflation, minimize rate shock and extend the time between General Rate Cases. The CPI increase should also apply to all regulated sewer companies in the future.

## **NOTICE AND PROTESTS**

Notice of the proposed rate increase in Advice Letter No. 32 was placed in the daily newspaper "The Herald" on April 23, 2004. There were no protests concerning the proposed increase.

## **FINDINGS AND CONCLUSIONS**

THE COMMISSION FINDS, after investigation by the Water Division, that:

1. The request of CUS to increase the present rates by the Consumer Price Index is in the public interest and that the rates authorized herein are just and reasonable.
2. Decision 92-03-093 authorizes all Class C and D water utilities to file an advice letter once each year to increase its prior years service revenue by an amount no greater than the most recent CPI-U index.
3. On April 20, 2004, CUS filed Advice Letter 32 to increase rates based on the Consumer Price Index.
4. The requested increase in rates of \$13,134 or 1.9%, the CPI-U for 2003, will not result in a rate of return exceeding 11.81%, the last authorized rate of return for CUS.
5. Although sewer companies are not specifically mentioned in D.92-03-093, the same operating conditions prevail for sewer utilities as have existed for Class C and Class D water utilities. Sewer utilities should be authorized to request CPI increases because of the operational and fiscal similarities of these two types of utilities.
6. The CPI increase should only be available to a sewer utility, which is not subject to test year, or attrition year rate adjustments as a result of an approved advice letter or general rate increase application, since those increases will have taken CPI factors into account.
7. A sewer utility is not authorized to file for a CPI increase for a year in which it feels its rates are sufficient to cover costs and provide adequate returns. No

CPI increase will be permitted to produce revenues in excess of a utility's authorized return in its most recent rate case.

8. All sewer utilities that the Commission regulates are Class C or Class D.
9. Water Division should be authorized to approve filings for increases that are in compliance with this resolution.
10. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(3).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 for California Utilities Services to make effective the revised rate Schedule No. 1, General Flat Rate Service, attached to Advice Letter 32, and to concurrently cancel its present effective rate schedule. The effective date of the revised rate schedule shall be five days after the date of this resolution.
2. California Utilities Services, Inc. and all other sewer utilities are authorized to file an advice letter for an increase over prior year's adopted revenue, based on the most recent year-end increase in the Consumer Price Index. The increase shall not result in earning in excess of the last authorized rate of return.
3. The Consumer Price Index increase for sewer utilities shall be subject to the conditions established by this Commission in Decision 92-03-093 authorizing Class C and D water utilities to seek a Consumer Price Index increase. They are as follows:
  - "1. A Class C or Class D water utility that is not now earning the rate of return authorized in its most recent rate case and is not now subject to test year, attrition year or other general rate increase is authorized to file once each year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U) announced by the Bureau of Labor Statistics of the U.S. Department of Labor. No CPI-U increase will be granted if projected revenues from the increase exceeds the rate of return authorized in a utility's most recent rate case.

2. A Class C or a Class D water utility is authorized to establish a memorandum account to track unanticipated costs of repairs necessary for a utility's service to its customers and to notify the Water Utilities Branch (Branch) by letter when it has done so. A Class C or Class D water utility is authorized to file by advice letter, or as part of a general rate case, to recover costs recorded in the memorandum account for unanticipated repair costs either in rates or in a one-year surcharge when the total cost exceeds 2% of the utility's last adopted gross revenues. Costs already reflected in rates or recoverable through insurance or other means and costs that with reasonable diligence could have been avoided shall not be recoverable through the memorandum account.
3. The rate of return recommended by the Commission Advisory and Compliance Division (CACD) for Class D water utilities is increased from a range of between 10.5% and 11% to a range of between 13.9% and 14.4%. Rate of return may be set at a level above or below this range if facts so warrant in a particular rate case.
4. The rate of return recommended by the CACD for Class C water utilities is increased from a range of between 10.5% and 11% to a range between 11.6% and 12.1%. Rate of return may be set at a level above or below this range if facts so warrant in a particular rate case.
5. CACD will prepare a memorandum for the Commission on or before April 1 of each year, beginning in 1993, recommending appropriate adjustments to the range of reasonable returns for Class C and Class D water utilities. CACD will consider changes in financial markets and substantial changes in operational risks by Class C and Class D water utilities.
6. Class D water utilities are authorized to file to recover up to 100% of fixed costs in the service charge portion of their rate design. Class C water utilities are authorized to file to recover up to 65% of fixed costs in the service charge portion of their rate design. Fixed costs include maintenance expenses; transmission and distribution expenses; customer account expenses, excluding uncollectibles; administration and general expense; rent expense; depreciation expense; property tax expense, and gross return on investment.

7. Class B, Class C, and Class D water utilities are authorized to file for informal hearing before an Administrative Law Judge (ALJ) to resolve any dispute that may arise in consideration by Branch of a utility's advice letter filing for rate case review. A utility may request such appeal by serving written notice on the Chief, Water Utilities Branch, (1) stating that the utility has exhausted its administrative appeals to the Chief, Water Utilities Branch, and to the Assistant Director, CACD, and (2) setting forth briefly the nature of the dispute. Within 20 days of receipt, Branch will forward the notice, along with a written response, the Administrative Judge Division, with a copy to the utility. An assigned ALJ will promptly schedule an informal hearing, without reporter, to hear the appeal request. Evidence will be taken under oath, and no attorney at law shall represent any party other than himself. Within 30 days of hearing, the ALJ shall issue a brief recommended decision, which need not contain findings of fact or conclusions of law, and Branch incorporate that recommended decision in the advice letter rate resolution that is prepared for consideration by the Commission.
8. Branch is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and D water companies requesting new rates and to recommend to the Commission that rate method that produces the higher result.
9. General Order 96-A shall be amended to permit advice letter rate filings by all Class B water utilities, as well as by Class C and D water utilities, regardless of projected annual earnings. General Order 96-A, Section VI; third paragraph, is amended to add an additional sentence as follows:

“Any utility or district of a utility may request authority for a general rate increase by an advice letter filing if the projected annual operating revenues, including the requested increase, are no greater than \$750,000. This revenue limitation does not apply to Class B, C, or Class D water utilities. This revenue limitation does not apply to the exchange telephone utilities.”
10. Branch is directed within 75 days of the effective date of this order to conduct a one-day or two-day Small Water Utilities Workshop on the subjects set forth below and, within 90 days of the effective date of this order, issue a written report on results of the workshop to be

distributed to all parties and to the assigned ALJ. Workshop topics are:

- (a) Develop a recommended procedure by which water utilities with fewer than 2,000 service connections may file for assessment for a facilities fee for new connections in compliance with Decision 91-04-068.
  - (b) Develop a recommended guide for determining reasonable amounts of salary and payroll for Class C and Class D water utilities.
  - (c) Develop recommendations for the Commission to follow to encourage low-interest long-term loans for small water utilities faced with constructing or renovating facilities to comply with new federal and state water quality standards.
  - (d) Develop recommendations for revising and simplifying the 21-page data request form that small water utilities are required to complete in seeking advice letter rate review.
  - (e) Consider and report on any recommendation by the California Water Association (the Association) or other parties to conduct a pilot project with respect to the Association's cost-of-service form of ratemaking for Class C and Class D water utilities.
11. The assigned ALJ shall schedule and conduct a hearing within 45 days of receipt of Branch's written report on the Small Water Utility Workshop to receive evidence on the workshop topics set forth above and to prepare a proposed order for consideration by the Commission. "
4. Water Division shall review and may approve all Consumer Price Index filings for sewer utilities that are in compliance with this resolution except if a protest, citing any reason, is received in response to a Consumer Price Index increase advice letter, then the authorization of the Consumer Price Index increase shall require Commission approval by resolution.
5. The Water Division shall provide notice and a copy of this resolution to all sewer utilities.

6. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 2, 2004; the following Commissioners voting favorably thereon:

---

STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
President  
CARL W. WOOD  
LORETTA M. LYNCH  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
Commissioners